

**DETROIT COMMUNITY HEALTH  
CONNECTION, INC.**

**INDEPENDENT AUDITORS' REPORT  
AUDIT OF BASIC  
FINANCIAL STATEMENTS**

**YEAR ENDED JANUARY 31, 2014**

**WITH COMPARATIVE TOTALS FOR 2013**

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
INDEPENDENT AUDITORS' REPORT  
AUDIT OF BASIC FINANCIAL STATEMENTS

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## **INDEPENDENT AUDITORS' REPORT**

June 3, 2014

Board of Directors  
Detroit Community Health Connection, Inc.  
Detroit, Michigan

We have audited the accompanying financial statements of Detroit Community Health Connection, Inc., which comprise the statements of financial position as of January 31, 2014 and 2013, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to

obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Detroit Community Health Connection, Inc. as of January 31, 2014 and 2013 and the results of its operations, the changes in net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2014, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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*Martin, Arrington, Desai & Meyers, P.C.*

Martin, Arrington, Desai and Meyers, P.C.  
Certified Public Accountants

DETROIT COMMUNITY HEALTH CONNECTION, INC.						
BALANCE SHEET						
JANUARY 31, 2014 AND 2013						
					2014	2013
Assets						
Current assets						
Cash and cash equivalents					\$ 4,511,473	\$ 3,212,399
Patient accounts receivable, net of allowance						
\$3,854,021 and \$2,779,695, respectively					561,498	405,302
Cost reimbursement receivable					149,000	1,371,006
Other accounts receivable					65,661	125,795
Grant receivables					213,889	169,438
Inventories					23,395	23,395
Security Deposit					-	51,796
Prepaid Expenses					33,162	17,773
Total current assets					5,558,078	5,376,904
Property and equipment, net					4,022,328	3,563,728
Total assets					<u>\$ 9,580,406</u>	<u>\$ 8,940,632</u>
Liabilities and net assets						
Current liabilities						
Accounts payable					508,509	281,709
Accrued expenses					481,694	432,940
Medicaid Cost Settlement					621,503	-
Deferred revenue					179,146	104,664
Total current liabilities					1,790,852	819,313
Total liabilities					1,790,852	819,313
Net assets						
Unrestricted						
Board designated					3,407,115	3,393,983
Property and equipment					4,022,328	3,563,728
Undesignated					360,111	1,163,608
Total unrestricted net assets					7,789,554	8,121,319
Total liabilities and net assets					<u>\$ 9,580,406</u>	<u>\$ 8,940,632</u>
See accompanying notes to the financial statements.						

DETROIT COMMUNITY HEALTH CONNECTION, INC.									
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS									
YEARS ENDED JANUARY 31, 2014 AND 2013									
								2014	2013
<b>Revenue and other support</b>									
	Federal contracts and grants							\$ 5,165,126	\$ 4,959,014
	Other contracts and grants							360,451	256,907
	Net patient service revenue							2,786,656	2,752,741
	Capitated health care premium revenue							1,402,707	1,315,840
	Pharmacy revenue							304,662	299,138
	Other							121,312	184,795
	Total revenue and other support							10,140,914	9,768,435
<b>Expenses</b>									
	Salaries, wages and related taxes							5,509,451	5,465,208
	Fringe benefits							1,462,589	1,339,276
	Medical and dental supplies							248,171	268,113
	Pharmacy							143,421	168,783
	Depreciation							252,007	253,769
	Contractual services							691,226	1,088,897
	Legal and professional fees							65,544	4,163
	Conferences and seminars							51,549	64,145
	Marketing and public relations							47,047	49,995
	Rent							442,322	405,262
	Other							1,559,352	898,688
	Total expenses							10,472,679	10,006,299
	Excess of revenue over expenses and change in unrestricted net assets							(331,765)	(237,864)
	Unrestricted net assets, beginning of year							8,121,319	8,359,183
	Unrestricted net assets, end of year							<u>\$ 7,789,554</u>	<u>\$ 8,121,319</u>
See accompanying notes to the financial statements.									

DETROIT COMMUNITY HEALTH CONNECTION, INC.					
STATEMENT OF CASH FLOWS					
YEARS ENDED JANUARY 31, 2014 AND 2013					
				2014	2013
Reconciliation of change in net assets to net cash provided by operating activities:					
Change in net assets				(331,765)	(237,864)
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Depreciation				252,007	253,769
(Increase) decrease in:					
Security Deposit				51,796	(51,796)
Receivables				1,081,493	(1,650,042)
Inventories				-	6,472
Prepaid expenses				(15,389)	(8,620)
Increase (decrease) in:					
Accounts payable				226,800	59,404
Cost reimbursement payable				621,503	(131,776)
Accrued expenses				48,754	(221,220)
Deferred Revenue				74,482	-
Net cash provided (used) by operating activities				2,009,681	(1,981,673)
Cash flows from investing activities:					
Purchase of property and equipment				(710,607)	(142,714)
Net cash flows from investing activities				(710,607)	(142,714)
Cash flows from financing activities:					
Principal payments on loan payable				-	(3,387)
Net cash flows from financing activities				-	(3,387)
Net increase (decrease) in cash and cash equivalents				1,299,074	(2,127,774)
Cash and cash equivalents, beginning of year				3,212,399	5,340,173
Cash and cash equivalents, end of year				<u>\$ 4,511,473</u>	<u>\$ 3,212,399</u>
<b>Supplemental cash flow information</b>					
Interest paid				<u>\$ -</u>	<u>\$ -</u>
See accompanying notes to the financial statements.					



DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 1 – Nature of Operations**

Detroit Community Health Connection, Inc. (Organization) was incorporated as a not-for-profit organization in 1988, under the laws of the State of Michigan and commenced operations in 1988. The Organization operates six facilities that provide health care assistance for physically and/or mentally impaired low-income individuals and families residing in Detroit, Michigan. Detroit Community Health Connection, Inc. is a community-based comprehensive primary care organization committed to providing accessible, affordable and quality service to all members of the communities it serves.

**Note 2 – Summary of Significant Accounting Policies**

*Tax Exempt Status*

The Organization has been classified by the Internal Revenue Service as an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Additionally, the Organization has been classified by the Internal Revenue Service as an organization that is not a private foundation. Therefore, no provision for federal income taxes has been made in the accompanying financial statements.

The Organization evaluates all significant tax positions under a more likely than not threshold as required by U.S. generally accepted accounting principles. As of January 31, 2014, the Organization does not believe that it has taken any tax positions, that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Organization's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of January 31, 2014, the Organization's federal and various state tax returns generally remain open for the last three years.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 2 – Summary of Significant Accounting Policies - Continued**

*Cash and Cash Equivalents*

For purposes of reporting cash flows, the Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At January 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts with banks.

*Patient Accounts Receivable*

Patient accounts receivable are stated at net realizable amounts from patients, third-party payers and others for services rendered. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Patient accounts receivable are ordinarily due 30 days after the issuance of the invoice. Balances over 120 days past due are considered delinquent. Delinquent accounts receivable are written off based on individual credit evaluation and specific circumstances of the patient or third-party payer.

*Inventory*

Inventory is stated at cost and consists of pharmaceutical supplies and prescription drugs.

*Property and Equipment*

Land, buildings and equipment are recorded at cost. All major maintenance that extends the useful life of the asset is recorded at cost. Donations of land, buildings and equipment are recorded as support at their estimated fair value. Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term of their respective estimated useful lives. Estimated useful lives used by the Organization are as follows:

	<u>Years</u>
Office Equipment	5 – 20
Medical Equipment	3 – 10
Furniture and Fixtures	5 – 10
Leasehold Improvements	10
Land Improvements	8 – 20
Building Improvements	10
Buildings	40

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 2 – Summary of Significant Accounting Policies – Continued**

*Board Designated Net Assets*

The Organization's Board of Directors has designated and set aside unrestricted net assets to meet potential future funding shortfalls. Such amounts are included in cash and cash equivalents and amounted to \$3,407,115 at January 31, 2014 and \$3,393,983 at January 31, 2013, respectively.

*Contributions*

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily restricted or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenue, expenses, and changes in net assets as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

*Net Patient Service Revenue*

The Organization has agreements with third-party payers that provide for payments to the Organization in amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*Charity Care*

The Organization provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 2 – Summary of Significant Accounting Policies - Continued**

*Premium Revenue*

The Organization has agreements with various health maintenance organizations (HMO) to provide medical services to subscribing participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Organization. In addition, HMOs make fee-for-service payments to the Organization for certain covered services based upon fee schedules.

*Donated Services*

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets and (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount.

The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various committee assignments.

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 3 – Property and Equipment**

The Organization's property and equipment are as follows:

	<u>2014</u>	<u>2013</u>
Buildings	\$4,993,650	\$4,587,770
Office equipment	1,204,128	1,185,253
Medical equipment	709,867	662,306
Furniture and fixtures	152,850	143,540
Land improvements	16,745	16,745
Leasehold improvements	82,397	82,397
Building improvements	81,572	81,572
Vehicles	30,485	30,485
Software	297,177	68,196
School based grant assets	55,781	55,781
Beacon grant assets	5,771	5,771
Total depreciable property and equipment	<u>7,630,423</u>	<u>6,919,816</u>
Less accumulated depreciation and amortization	<u>(4,340,645)</u>	<u>(4,088,638)</u>
Net depreciable property and equipment	<u>3,289,778</u>	<u>2,831,178</u>
Land	<u>732,550</u>	<u>732,550</u>
Net property and equipment	<u><u>\$4,022,328</u></u>	<u><u>\$3,563,728</u></u>

**Note 4 – Leases**

The Organization has several non-cancelable operating leases, primarily for buildings and office equipment that expire over the next five years. Rental expense totaled \$442,322 and \$405,262 for the years ended January 31, 2014 and 2013, respectively.

**Note 5 – Charity Care**

Charges excluded from revenue under the Organization's charity care policy were \$2,681,837 for 2014 and \$1,709,327 for 2013.

**Note 6 – Functional Expenses**

The Organization provides general health care services to residents within its geographic location. Expenses related to providing those services for the years ended

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 6 – Functional Expenses - Continued**

January 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 8,390,794	\$ 8,042,023
Management and general	2,081,885	1,964,276
Total	<u>\$10,472,679</u>	<u>\$ 10,006,299</u>

**Note 7 – Net Patient Service Revenue**

The Organization provides health care services through its outpatient care facilities located in Detroit, Michigan. The Organization grants credit to patients, substantially all of whom are local residents. The Organization generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plan or policies (e.g., Medicare, Medicaid, health maintenance organizations and commercial insurance policies).

The mix of receivables from patients and third-party payers at January 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 226,373	\$ 216,505
Medicaid	81,692	72,333
Other third party payers	253,431	116,464
	<u>\$ 561,496</u>	<u>\$ 405,302</u>

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

*Medicare*

Covered federally qualified health center (FQHC) services rendered to Medicare program beneficiaries are paid at prospectively determined rates per encounter. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. At January 31, 2014, all Medicare

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 7 – Net Patient Service Revenue – Continued**

*Medicare - Continued*

settlements for 2013 and after are subject to audit and retroactive adjustment. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid*

Covered FQHC services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per encounter. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual reports by the Organization and audits thereof by the Medical Service Administration, State of Michigan.

*Others*

The Organization also has entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the organization under these arrangements includes prospectively determined rates per encounter and discounts from established charges.

**Note 8 – Employee Benefit Plan**

The Organization sponsors a tax sheltered annuity that covers employees who meet certain length of service requirements. Employer contributions at 5% of gross wages were \$269,959 and \$208,059 for the years ended January 31, 2014 and 2013, respectively.

**Note 9 – Federally Qualified Health Center Status**

The Organization qualifies as a federally qualified health center (FQHC) under the provisions of the Omnibus Budget Reconciliation Act of 1989. In compliance with this Federal government mandate, the Medicaid program began to reimburse the Organization full, reasonable costs of services provided to qualified Medicaid recipients on or after April 1, 1990. Final settlements are determined after submission of the annual cost report by the Organization and review by the Medicaid fiscal intermediary.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2014

**Note 10 – Contingencies and Subsequent Events**

The Organization is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and change in cash flows of the organization. Events could occur that would change this estimate materially in the near term.

**Note 11 – Medical Malpractice Claims**

The U.S. Department of Health and Human Services, Bureau of Primary Health Care has deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage and personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of these incidents. Based upon the Organization's claim experience, no such accrual and related accrual of insurance proceeds has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 12 – Evaluation of Subsequent Events**

Management has evaluated subsequent events through June 3, 2014, the date which the financial statements were available to be issued.



DETROIT COMMUNITY HEALTH CONNECTION, INC.							
SCHEDULE OF PATIENT SERVICE REVENUE							
YEARS ENDED JANUARY 31, 2014 AND 2013							
				2014			
					Deductions		
				Gross	from		Net
				Revenue	Revenue		Revenue
<b>Fee for service</b>							
Medicare				\$ 458,128	\$ 322,484		\$ 135,644
Medicaid				2,951,869	852,146		2,099,723
Private pay and other				2,954,317	2,403,028		551,289
				<u>\$6,364,314</u>	<u>\$ 3,577,658</u>		<u>\$2,786,656</u>
				2013			
					Deductions		
				Gross	from		Net
				Revenue	Revenue		Revenue
<b>Fee for service</b>							
Medicare				\$ 350,167	\$ 102,588		\$ 247,579
Medicaid				2,765,994	708,001		2,057,993
Private pay and other				2,220,986	1,773,817		447,169
				<u>\$5,337,147</u>	<u>\$ 2,584,406</u>		<u>\$2,752,741</u>

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS BY FUNDING SOURCE  
YEAR ENDED JANUARY 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

	330 Program	ARRA Funds	Board Designated Reserve Fund	Immunization Program	Teen Program
<b>Revenue and other support</b>					
Federal contracts and grants	\$ 4,045,598	\$ 457,790	\$ -	\$ -	\$ -
Other contracts and grants	123,539	-	-	6,912	230,000
Net patient service revenue	2,790,278	-	-	-	(3,622)
Capitated health care premium revenue	1,330,619	-	-	-	72,088
Pharmacy revenue	304,662	-	-	-	-
Other	108,178	-	13,132	-	-
Total revenue and other support	<u>8,702,874</u>	<u>457,790</u>	<u>13,132</u>	<u>6,912</u>	<u>298,466</u>
<b>Expenses</b>					
Salaries, wages and related taxes	4,799,721	-	-	4,336	238,927
Fringe benefits	1,295,334	-	-	1,106	56,209
	<u>6,095,055</u>	<u>-</u>	<u>-</u>	<u>5,442</u>	<u>295,136</u>
Medical and dental supplies	225,345	-	-	998	14,700
Pharmacy	143,421	-	-	-	-
Provision for depreciation	-	-	-	-	-
Contractual services	601,881	-	-	-	4,620
Legal and professional fees	64,444	-	-	-	-
Conferences and seminars	46,428	-	-	-	2,670
Marketing and public relations	44,023	-	-	-	2,270
Rent	436,986	-	-	-	5,336
Interest	58	-	-	-	-
Other	1,390,128	-	-	472	45,995
Total expenses	<u>9,047,769</u>	<u>-</u>	<u>-</u>	<u>6,912</u>	<u>370,727</u>
Excess of revenue over expenses and change in unrestricted net assets	(344,895)	457,790	13,132	-	(72,261)
Other changes in net assets:					
Transfers in (out)	(404,178)	(512,214)	-	-	72,261
Unrestricted net assets, beginning of year	<u>1,109,184</u>	<u>54,424</u>	<u>3,393,983</u>	<u>-</u>	<u>-</u>
Unrestricted net assets, end of year	<u>\$ 360,111</u>	<u>\$ -</u>	<u>\$ 3,407,115</u>	<u>\$ -</u>	<u>\$ -</u>

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS BY FUNDING SOURCE  
YEAR ENDED JANUARY 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

	Ryan White Title I	Ryan White Title III	HIV Prevention Services	Property and Equipment	2014 Total	2013 Total
<b>Revenue and other support</b>						
Federal contracts and grants	\$ 8,086	\$ 653,652	\$ -	\$ -	\$ 5,165,126	\$ 4,959,014
Other contracts and grants	-	-	-	-	360,451	256,907
Net patient service revenue	-	-	-	-	2,786,656	2,752,741
Capitated health care premium revenue	-	-	-	-	1,402,707	1,315,840
Pharmacy revenue	-	-	-	-	304,662	299,138
Other	-	2	-	-	121,312	184,795
Total revenue and other support	8,086	653,654	-	-	10,140,914	9,768,435
<b>Expenses</b>						
Salaries, wages and related taxes	6,711	459,756	-	-	5,509,451	5,465,208
Fringe benefits	874	109,066	-	-	1,462,589	1,339,276
	7,585	568,822	-	-	6,972,040	6,804,484
Medical and dental supplies	87	7,041	-	-	248,171	268,113
Pharmacy	-	-	-	-	143,421	168,783
Provision for depreciation	-	-	-	252,007	252,007	253,769
Contractual services	231	84,494	-	-	691,226	1,088,897
Legal and professional fees	-	1,100	-	-	65,544	4,163
Conferences and seminars	-	2,451	-	-	51,549	64,145
Marketing and public relations	-	754	-	-	47,047	49,995
Rent	-	-	-	-	442,322	405,262
Interest	-	-	-	-	58	410
Other	183	122,516	-	-	1,559,294	898,278
Total expenses	8,086	787,178	-	252,007	10,472,679	10,006,299
Excess of revenue over expenses and change in unrestricted net assets	-	(133,524)	-	(252,007)	(331,765)	(237,864)
Other changes in net assets:						
Transfers in (out)	-	133,524	-	710,607	-	-
Unrestricted net assets, beginning of year	-	-	-	3,563,728	8,121,319	8,359,183
Unrestricted net assets, end of year	\$ -	\$ -	\$ -	\$ 4,022,328	\$ 7,789,554	\$ 8,121,319

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

June 3, 2014

To the Board of Directors  
Detroit Community Health Connection, Inc.  
Detroit, Michigan

We have audited the financial statements of Detroit Community Health Connection as of and for the year ended January 31, 2014 and have issued our report thereon dated June 3, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Detroit Community Health Connection's internal control over financial reporting as a basis for designating our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Detroit Community Health Connection's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Detroit Community Health Connection's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Detroit Community Health Connection's financial statements that is more than inconsequential will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin, Arrington, Desai & Meyers, P.C.*

Martin, Arrington, Desai and Meyers, P.C.  
Certified Public Accountants

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*Certified Public Accountants & Consultants*

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

June 3, 2014 except for testing of additional  
program described in "Other Matters" below  
which was completed on December 23, 2014

Board of Directors  
Detroit Community Health Connection, Inc.  
Detroit, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Detroit Community Health Connection, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Detroit Community Health Connection, Inc.'s major federal programs for the year ended January 31, 2014. Detroit Community Health Connection, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Detroit Community Health Connection, Inc.'s major federal programs based on our audit of the types of

compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about

Detroit Community Health Connection, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Detroit Community Health Connection, Inc.'s compliance.

#### ***Basis for Qualified Opinion on Consolidated Health Centers***

As described in the accompanying schedule of findings and questioned costs, Detroit Community Health Connection, Inc. did not comply with requirements regarding CFDA 93.224 and 93.527 Consolidated Health Centers as described in finding number 2014-1 for eligibility. Compliance with such requirements is necessary, in our opinion, for Detroit Community Health Connection, Inc. to comply with the requirements applicable to that program.

#### ***Qualified Opinion on Consolidated Health Centers***

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, Detroit Community Health Connection, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Consolidated Health Centers for the year ended January 31, 2014.

#### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, Detroit Community Health Connection, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended January 31, 2014.

### ***Other Matters***

Detroit Community Health Connection, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Detroit Community Health Connection, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

We revised the Schedule of Findings and Questioned Costs and performed audit testing on the major federal program for the U.S. Department of Health and Human Services, CFDA Number 93.918 of the accompanying Schedule of Expenditures of Federal Awards, for the year ended January 31, 2014. The work was completed on December 23, 2014 which resulted in the dual-dating of our audit report.

### **Report on Internal Control Over Compliance**

Management of Detroit Community Health Connection, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Detroit Community Health Connection, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Detroit Community Health Connection, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely



basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-1 to be a significant deficiency.

Detroit Community Health Connection, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Detroit Community Health Connection, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Martin, Arrington, Desai & Meyers, P.C.*

Martin, Arrington, Desai and Meyers, P.C.  
Certified Public Accountants

Cluster/Program	Federal Agency/ Pass-through Entity	CFDA Number	Amount
Consolidated Health Centers	Department of Health and Human Services	93.224	\$ 2,360,346
Affordable Care Act (ACA) Grants For New And Expanded Services Under the Health Centers Program	Department of Health and Human Services	93.527	1,685,252
HIV Emergency Relief Project Grants	Department of Health and Human Services/ Southeastern Michigan Health Association	93.914	8,086
Capital Improvement Program - ARRA	Department of Health and Human Services	93.703	457,790
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Department of Health and Human Services	93.918	653,652
			<u>\$ 5,165,126</u>

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JANUARY 31, 2014

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Detroit Community Health Connection, Inc. under programs of the federal government for the year ended January 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Detroit Community Health Connection, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of the Detroit Community Health Connection, Inc.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Pass-through entity identifying numbers are presented where available.

Detroit Community Health Connection, Inc.  
Schedule of Findings and Questioned Costs  
January 31, 2014

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?      ☐ Yes    ☒ No
- Significant deficiency(ies) identified?    ☐ Yes    ☒ None reported

Noncompliance material to financial statements noted?      ☐ Yes    ☒ No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?      ☐ Yes    ☒ No
- Significant deficiency(ies) identified?    ☒ Yes    ☐ None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133?      ☒ Yes    ☐ No

Detroit Community Health Connection, Inc.  
Schedule of Findings and Questioned Costs  
January 31, 2014

*Federal Awards – Continued*

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants For New and Expanded Services Under the Health Centers Program
93.703	Capital Improvement Program - ARRA
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish  
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee        ☐ Yes    ☒ No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no findings related to the financial statements which are required to be reported in accordance with government auditing standards generally accepted in the United States of America for the year ended January 31, 2014.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING 2014-1                      Consolidated Health Centers Income Ceiling Calculation**

**Finding Type:                      Noncompliance**

Criteria:                      Providers may impose charges for the provision of services only to individuals whose income level exceeds 100% of the official poverty line based on a publicly available poverty schedule. A waiver has not been granted by HRSA under 42 USC 300ff-52(b)(2) (42 USC 300ff-64(e)(5)).

Detroit Community Health Connection, Inc.  
Schedule of Findings and Questioned Costs  
January 31, 2014

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2014 – 1                      Consolidated Health Centers Income Ceiling Calculation  
-    Continued**

Condition:	The organization is required to obtain gross income information from each individual in order to implement the poverty fee schedule limitation. As a standard practice the Organization does obtain income information from individuals in accordance with regulations. However, determination of the ceiling which is used to determine whether individuals can be charged and what amount the charges cannot exceed is not calculated correctly. Charges may be imposed on individuals whose income exceeds 100% of the official poverty line. The Organization charges patients with insurance for services provided regardless of the ceiling limit. Of the sample of 60 occurrences tested, the Organization miscalculated the ceiling amount for 3 patients.
Effect:	The Organization's misapplication of the sliding fee scale has resulted in patients being charged for services incorrectly.
Cause:	The personnel of the Organization either did not obtain proper training relating to the ceiling calculations or there is a misconception regarding the application of the regulations calculation.
Recommendation:	We recommend that management review the requirements of the grant and begin determining the correct income limit according to the poverty schedule regulations.
Corrective Action:	All three of the errors were traced to individuals responsible and it was found to be isolated human errors and not a training issue.

Detroit Community Health Connection, Inc.  
Schedule of Findings and Questioned Costs  
January 31, 2014

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS -  
Continued**

Going forward, we will develop tighter internal controls by conducting more frequent checks and balances of all calculations and cross referencing the actual paper evaluation with what the system is showing. We also plan to have refresher in-services on a bi-annually basis which will be developed by finance and management. Management will conduct periodic audits to see the policy implemented correctly.

Detroit Community Health Connection, Inc.  
Schedule of Prior Year Findings and Questioned Costs  
January 31, 2014

There were no findings in the prior year.